TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1934 - SB 2165

February 10, 2014

SUMMARY OF BILL: Authorizes an exemption from qualified state taxes for a period of five years, for any person or entity that has at least 100 employees and that does not have a headquarters or other facility in Tennessee as of the effective date of this act, if such person or entity: locates its headquarters or principal place of business from another state to Tennessee; constructs a new facility or building in a recover zone of Jackson, Fentress, Morgan, or Overton county; makes a capital or property investment of at least $100,000 in Tennessee; and creates at least 50 new full-time employee jobs in conjunction with the construction of the facility.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds $363,000/FY14-15
Exceeds $1,452,000/FY15-16
Exceeds $2,178,000/FY16-17
Exceeds $2,904,000/FY17-18
Exceeds $3,630,000/FY18-19 and Subsequent Years

Other Fiscal Impact – Additional economic impacts may occur as a result of this bill. However, due to many unknown factors, fiscal impacts directly attributable to secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- Qualified state taxes are defined by this bill as all taxes imposed by this state, including franchise, excise and state sales and use taxes. This analysis assumes that franchise, excise, and state sales and use taxes will be the only three taxes for which an exemption may be granted to qualified businesses under this bill.
- Local governments will be held harmless from the loss of revenue.
- Based on United States Bureau of the Census Business Dynamics Statistics data, it is estimated that approximately 12,000 new businesses are created in Tennessee each year. Assuming two percent of such businesses locate in one of the four qualifying counties and ten percent of those qualify for the tax exemptions, the total number of new businesses that will receive the exemptions will be 24 (12,000 x 2.0% x 10.0%).
- Based on information provided by the Department of Revenue, it is estimated that for each new qualified business the minimum annual excise tax liability under current law

would be $15,000; the minimum franchise tax liability would be $1,250; and the minimum state sales and use tax liability would be $14,000, assuming a minimum sales taxable cost of relocating businesses of $200,000.

- The total annual exemptions from qualified state taxes, provided under this bill, are estimated to exceed $726,000 [24 x ($15,000 + $1,250 + $14,000)]. The first-year impact (FY14-15) is estimated to exceed 50 percent, or $363,000, of the full-year impact, due to the time required to relocate a business and meet all of the requirements of this bill.
- Due to the exemptions being granted for five years and the estimate that 12 new companies will qualify for exemptions each year, the compounded decrease to state revenue is estimated to exceed: $363,000 in FY14-15, $1,452,000 in FY15-16, $2,178,000 in FY16-17, $2,904,000 in FY17-18, and $3,630,000 in FY18-19 and subsequent years.
- The amount of forgone state revenue from granting exemptions to companies that will relocate to one of the qualified areas as a direct result of this bill but would not do so under current law is estimated to be not significant.
- There could be subsequent secondary economic impacts to state and local governments as a result of this bill. However, and due to many unknown factors, such as the number of additional jobs created as a result of this bill, the average wages for such jobs and spending habits of new job holders, any such impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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